

**SOUTH CAROLINA
COMMISSION ON HIGHER EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 21, 2007

The Honorable Mark Sanford, Governor
and
Members of the Commission
The South Carolina Commission on Higher Education
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Commission on Higher Education (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2006, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted, and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$1,300 – general fund, \$8,000 – earmarked fund, \$405,200 – restricted fund, and \$26,400 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Timely Deposits in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$208,400 – general fund, \$7,500 – earmarked fund, \$382,800 – restricted fund, and \$25,600 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Disbursements in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 2 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Pay Period in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, and all operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The individual journal entry transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Capital Assets Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Commission and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2005, to determine if Agency had taken corrective action.

We found no exceptions as a result of these procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and Members of the Commission and management of the South Carolina Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

TIMELY DEPOSITS

We tested 50 cash receipt transactions. We noted that six transactions were not deposited in a timely manner. The receipts were deposited 8-13 days after receipt. We also were unable to determine the date of receipt for three receipt transactions. Therefore, we could not verify the timeliness of the deposit for those receipts.

Proviso 72.1 of the fiscal year 2006 Appropriation Act states, "For the current year, except as hereinafter specifically provided, all general state revenues derived from taxation, licenses, fee, the sale of commodities and services, and income tax derived from any other department or institutional source or activity, must be remitted to the State Treasurer at least once week, when practical ..."

We recommend the Commission develop and implement procedures to ensure compliance with Proviso 72.1.

DISBURSEMENTS

Voucher Cancellation

We tested twenty-five disbursement transactions and found that one voucher had not been properly cancelled to prevent re-use.

Effective internal controls and the Commission's policies and procedures require vouchers and supporting documents to be stamped "Paid" to prevent re-use.

We recommend the Commission adhere to its policy and properly cancel all vouchers and supporting documentation to prevent re-use.

Voucher Preparation

Section 2.1.3.85 of the State Accounting and Reporting (STARS) Manual specifies that disbursement vouchers identify travel information on the face of the voucher. The STARS Manual requires the traveler's name and social security number.

We tested twenty-five disbursement transactions. For one of the twenty-five vouchers tested the Commission used its agency procurement card to purchase an airline ticket. The Commission did not separate the airline ticket purchase from other purchases and charged all of the procurement card purchases to the supplies object code. The Commission also did not include the information required by the STARS Manual on the face of the voucher.

We recommend the Commission develop and implement a policy with respect to purchasing airline tickets using the agency's procurement card. The airline transportation costs should be charged to the appropriate object code and include all information required by the STARS Manual.

PAY PERIOD

We tested the personnel and payroll records of all newly hired employees. One of the employees selected was not paid in accordance with the State's pay schedule. The employee began work on October 3, 2005. He received his first paycheck on December 1, 2005. His check included payment for work performed from October 3 through November 1. The employee should have received his first paycheck on November 1, 2005. The employee was not paid in accordance with the State's pay schedule because the employee's timesheet was not submitted to the Commission's payroll office in a timely manner.

Section 8-11-35 of the 1976 Code of Laws state, in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2nd of the prior fiscal year with the first pay period ending on June 16th of the prior fiscal year. The payroll period continues on a twice monthly schedule as established by the State Budget and Control Board."

We recommend the Commission implement procedures to ensure that required payroll support documentation is submitted timely to the payroll office to ensure prompt payment to employees in accordance with the State's pay schedule.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The schedule of federal financial assistance (SFFA) did not agree to the Commission's books. Expenditures of \$116,000 were omitted from the SFFA. Also, the beginning and ending fund balance of a grant on the SFFA did not agree to the Comptroller General 467 report. This error was detected by the Commission's reconciliation procedures, but not corrected.

The State Auditor's Office instructions for preparing the SFFA direct preparers to include all federal grant expenditures. The Statewide Accounting and Reporting (STARS) Manual, section 2.1.7.20 requires state agencies to reconcile to the CG 467 report. In addition, once errors are discovered steps should be taken to promptly correct the errors.

We recommend the Commission report all federal grants on their SFFA; they should implement a process to ensure complete reporting. Also, we recommend the Commission promptly correct reconciling items when noted.

CAPITAL ASSETS CLOSING PACKAGE

Section 3.9 of the Comptroller General's Closing Procedures Manual states, "Capital assets that are purchased or constructed must be recorded at historical cost. Historical cost equals the original cost of the asset, including all charges necessary to place the asset into service. For example, taxes, freight charges, site preparation costs, and professional fees are included in the historical cost of a capital asset."

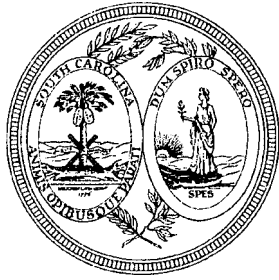
The Commission did not properly record the cost of its capital asset addition in its subsidiary ledger (capital assets worksheet) and on the capital assets closing package because it did not include sales tax in the asset purchase price. As a result, the Commission's accounting records and the capital assets closing package were understated by \$661.

We recommend the Commission capitalize all costs associated with the purchase of capital assets.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2005, and dated May 11, 2006. We determined that the Commission has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE



South Carolina Commission on Higher Education

Layton McCurdy, M.D., Chairman
Mr. Daniel Ravenel, Vice Chairman
Col. John T. Bowden, Jr.
Douglas R. Forbes, D.M.D.
Dr. Bettie Rose Horne
Dr. Raghu Korrapati
Dr. Louis B. Lynn
Ms. Cynthia C. Mosteller
Mr. James R. Sanders
Mr. Hood Temple
Mr. Kenneth B. Wingate
Mr. Randy Thomas
Mr. Neal J. Workman, Jr.
Dr. Mitchell Zais

November 27, 2007

Dr. Garrison Walters, Executive Director

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Re: AUP Report for the Fiscal Year Ended June 30, 2006

Dear Mr. Gilbert:

We have received and reviewed the contents of the above captioned report and, through this letter, authorize its immediate release.

We would like to take this opportunity to thank your audit team for the professionalism they demonstrated and the other courtesies extended to us on their visit. We found their advice on our earmarked revenue receipting process to be especially helpful.

We have reviewed the findings contained in your report and have taken affirmative steps to preclude repetition in the future. Please feel free to contact me directly at 737-2263 or Jrichards@che.sc.gov with any questions about this matter.

Sincerely,

Jeff Richards
Director of Operations

Cc: Dr. Garrison Walters, Executive Director
Operations Staff

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